



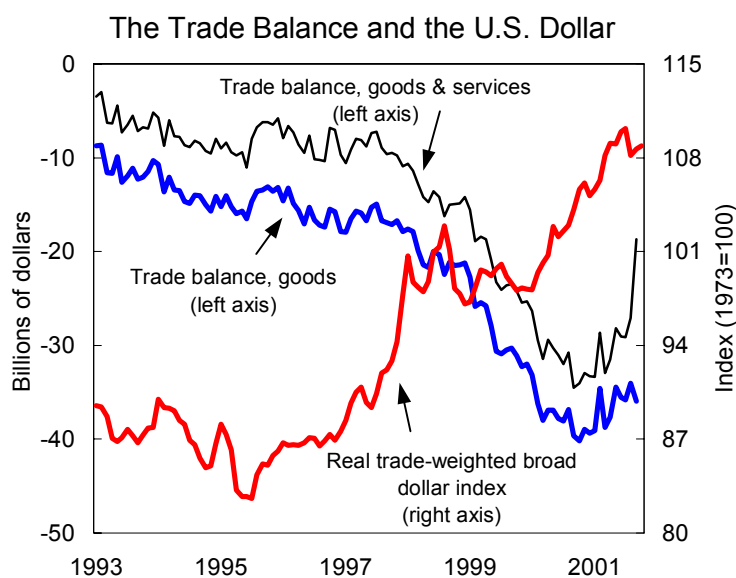
# WEEKLY ECONOMIC DIGEST



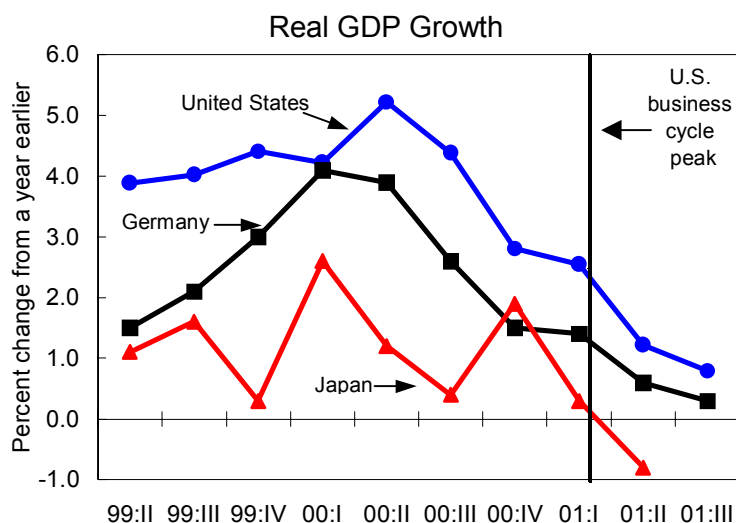
JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – VICE CHAIRMAN

November 27, 2001

## The Trade Deficit Remains Large



Source: Bureau of the Census, U.S. Department of Commerce; Federal Reserve Board.



SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce; Federal Statistical Office (Germany); ESRI, Department of National Accounts (Japan); and National Bureau of Economic Research.

- **Special factors led to temporary narrowing in the balance of trade.** The U.S. goods and services deficit shrank by \$8.4 billion to \$18.7 billion in September. That decline, however, largely resulted from substantial payments made by foreign insurance companies in connection with the terrorist attacks of September 11. Those payments temporarily depressed U.S. imports of insurance services, more than offsetting a decline in service exports stemming from reduced international travel during the month. The U.S. trade deficit in goods rose by \$1.8 billion in September, as declines in import demands for goods were more than offset by declines in U.S. goods exports.
- **U.S. trade in goods shrank in September.** The volume of both exports and imports of goods declined although the decline in exports was larger: exports declined by 6.3 percent as compared with a 2.3 percent drop in imports. As U.S. factories continue to operate with substantial excess capacity, demands for imported capital goods and industrial supplies will remain depressed. Moreover, weaker overseas economies will inhibit a recovery in demand for U.S. exports.
- **The U.S. recession is now official.** The National Bureau of Economic Research (NBER) has officially determined that the U.S. economy slipped into recession in March. By establishing benchmark dates for cyclical peaks and troughs, the NBER provides analysts with a framework within which economic fluctuations can be compared across business cycles in order to identify common cyclical features as well as idiosyncrasies of particular cycles. As it happens, an unusual feature of the current cycle is that a number of the world's largest economies also appear to be in recession, most notably the Japanese and German economies. Some analysts have argued that the current synchronization of the leading world economies may work to slow the recoveries.
- **The strong dollar remains a mixed blessing.** Though off its July peak, the exchange value of the U.S. dollar has remained strong relative to the currencies of our trading partners. The dollar's enduring strength has been attributed to the relatively strong U.S. economy along with lingering uncertainties regarding the emergence of Euro notes and coins in coming months. Although the dollar's strength will continue to work against significant improvements in the nation's current account balance, the strong dollar is an important reason the U.S. inflation rate has remained so low.

<b>Economy At A Glance</b>	Oct	Sep	Aug	Jul	2001 Qtr 3	2001 Qtr 2	2001 Qtr 1	2000 Qtr 4	2000	1999
<b>Economic Activity</b>										
Real GDP (% growth)*					-0.4	0.3	1.3	1.9	4.1	4.1
Industrial Production (% growth)	-12.4	-11.4	4.7	-1.2	-5.4	-4.4	-6.8	-0.9	5.6	4.2
Capacity Utilization (Level, %)	74.8	75.7	76.6	77.0	76.4	77.8	79.2	81.3	82.1	81.2
Civilian Unemployment Rate (Level, %)	5.4	4.9	4.9	4.5	4.8	4.5	4.2	4.0	4.0	4.2
Housing Starts (Thousands)	1552	1572	1559	1660	1594	1623	1627	1539	1575	1647
Real Disposable Personal Income* (% growth)		-7.0	25.3	23.9	12.8	2.4	2.7	4.2	3.5	2.5
Retail Sales (% growth)	128.5	-23.5	2.7	2.4	-1.3	5.2	5.0	0.3	7.6	8.2
Personal Saving Rate (Level, %)*		4.7	4.1	2.5	3.8	1.1	1.1	1.0	1.0	2.4
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)	-3.5	4.9	1.2	-3.5	0.7	3.1	4.2	2.9	3.4	2.2
Core CPI-U Inflation (% growth)	2.4	2.4	2.4	2.4	2.5	2.6	3.2	2.4	2.4	2.1
Compensation per Hour (% growth)					3.6	4.1	4.5	3.6	4.4	3.5
Output per Hour (% growth)					2.7	2.2	0.1	2.3	3.0	2.3
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)	2.2	2.6	3.4	3.5	3.2	3.7	4.8	6.0	5.8	4.6
T-Note Rate, 10-years (Level, %)	4.6	4.7	5.0	5.2	5.0	5.3	5.1	5.6	6.0	5.7
Federal Funds Rate (Level, %)	2.5	3.1	3.7	3.8	3.6	4.3	5.6	6.5	6.2	5.0
Dow Jones Industrial Avg (Index Level)	9221	9043	10315	10445	9934	10669	10513	10586	10735	10465

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

\* Subject to revision this week.

#### Major Economic News Due This Week:

- **Manufacturers' Shipments, Orders, and Inventories of Durable Goods, October Advance**  
[Release: Thursday, November 29, 2001]
- **Gross Domestic Product (GDP), Third Quarter, Preliminary** [Release: Friday, November 30, 2001]
- **Personal Income and Consumption Expenditures, October** [Release: Monday, December 3, 2001]